

### The open method of co-ordination: some remarks regarding old-age security within an enlarged European Union

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**Jörg Sommer**

**The Open Method of Co-ordination:  
some remarks regarding old-age security  
within an enlarged European Union**

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## **Zusammenfassung**

Im März 2000 hat der Europäische Rat von Lissabon mit der ‚offenen Methode der Koordinierung‘ (OMK) ein *neues* Politikinstrument eingeführt mit dem Ziel, sozialpolitisch sensible Bereiche wie soziale Integration, Alterssicherung, Gesundheit und Langzeitpflege zu gestalten.

Dieses Papier gibt einen Überblick über die wichtigsten Entwicklungen und Anforderungen, die sich für den Prozess der OMK insbesondere im Bereich der Alterssicherung stellen. Das Papier ist deskriptiv und konzentriert sich in erster Linie auf den Prozess und dessen Instrumente, die involvierten Akteure sowie deren unterschiedliche Ziele und Ansätze. Abschließend nimmt das Papier Bezug zum Erweiterungsprozess der Europäischen Union. In diesem Zusammenhang wird verdeutlicht, dass hinsichtlich der Frage, wie die 10 Beitrittsländer in die OMK mit einzubeziehen sind, bislang nur wenig Fortschritte erzielt wurden. Dennoch könnte – insb. im Zuge des Erweiterungsprozesses – die OMK zukünftig die nationalen Rentenreformprozesse (indirekt) beeinflussen.

## **Summary**

In March 2000 the European Council of Lisbon introduced the ‘open method of co-ordination’ (OMC) as a *new* policy instrument to tackle politically sensitive areas, namely social inclusion, old-age security, health, and long-term care.

This paper gives a view over the most important developments and main issues raised by the OMC process, particularly in the area of old-age security. The paper is descriptive and focuses on the processes and their tools, the involved actors and their different broad objectives as well as approaches. Finally, the paper deals with the enlargement process of the European Union. In the same context it is discussed that not much thought has been given to the question of how exactly the 10 candidate countries can be integrated comprehensively into the OMC. Nevertheless, it is possible that – especially due to the enlargement process – the OMC has an indirect effect on future national old-age security reforms.



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## Introduction

During the previous decade political interest focused mainly on the European Monetary Union (EMU). Now, at the dawn of the new millennium and the upcoming enlargement<sup>1</sup> the European Union (EU) had to define new aims. In March 2000 the European Council of Lisbon started a new initiation by setting a strategic aim for the Union as a whole: to render Europe the most competitive, economically, and socially cohesive area in a global context.<sup>2</sup> Decisions had to be made in order to meet this ambitious goal and to strengthen the social dimension of Europe. Therefore, the Lisbon Summit established the ‘open method of co-ordination’ (OMC) for national social policies among member states as a means of pursuing economic and employment growth coupled with greater social cohesion.<sup>3</sup> The main modification between previous EU policy instruments and the OMC is its so-called *soft* policy approach. Thus, the OMC represents a *new* type of policy making and regulation on the EU level: on the one hand, it is *softer* than the classical legislative approach, but on the other hand it implies *more* than a simple non-binding recommendation or a political declaration. However, in view of the EU enlargement it is to be noticed, that so far the candidate countries are not involved in the OMC process at all. Nevertheless, candidate countries could become relevant actors for the development and relevancy of the OMC especially in the area of old-age security. In some of these transformation economies radical old-age security reforms were implemented in the last decade. By the aid of the OMC these reforms could be evaluated and the experiences be made transparent. If the OMC resumes that the old-age security models of the candidate countries happen to be the *best-practice*, this circumstance would (indirectly) influence future reform processes of current EU member states.

The OMC will be implemented in the area of social inclusion, old-age security, health and long-term care after having been used in the employment area since the late 90's. This paper describes the most important developments and main issues raised by the OMC particularly in the area of old-age security of EU member states as well as of candidate countries. Starting with a brief introduction about European integration and social policy (1.), the paper illustrates *three* main points: *First*, the channels at the European level that are influencing decisions for national old-age security systems (2.). *Second*, the process of the OMC as a whole regarding old-age security (3.). In this part the paper presents the main actors involved (3.1); followed by an overview of their different approaches (3.2); this part concludes with an examination of the current debate about social indicators and benchmarks, which is the point at issue right now (3.3). *Third*, the paper describes the crucial role of the candidate countries in the OMC process. (4.). *Finally*, the paper ends with some concluding remarks (5.).

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<sup>1</sup> The candidate countries for the upcoming enlargement in 2004 are Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia.

<sup>2</sup> Cf. European Council (2000: 1).

<sup>3</sup> Cf. European Council (2000: 2).



## 1. European integration and social policy

From its very beginning the European Economic Community (EEC) has been confronted with the problem of social protection.<sup>4</sup> During the preparatory stages prior to signing the Treaty of Rome in 1956/57, the question was raised as to whether or not *harmonisation* of social protection systems is necessary.<sup>5</sup> One side, at that time especially the French government and trade unions, claimed that, once the barriers fall, free competition of social security systems might lead to market disadvantages for countries with a high level of social security and, therefore, with higher contributions in comparison with their competitors with a lower level of social security, and consequently lower contributions as well. Furthermore, these disparities should not lead to market distortions. Therefore, they supported a progressive harmonisation of social security systems (and especially their funding), while at the same time custom barriers should be removed.<sup>6</sup> The opposing side, particularly the German government and employers' associations, stated that the Common Market could accommodate existing differences. The argument was that social charges are an element of labour cost, but only one factor among others affecting the competitiveness.<sup>7</sup> The overall result was that problems raised of harmonisation of social security systems within the Community are extremely complex.<sup>8</sup> Therefore, during the European integration harmonisation of social security remained a big issue but has never been put into practice.<sup>9</sup>

Today the systems of social security – and especially these of old-age security – within EU member states and in candidate countries still differ not only in organisation but also in their conception.<sup>10</sup> Nevertheless, in view of the European Commission, on closer examination this diversity

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<sup>4</sup> The European Economic Community (EEC) was renamed into European Community (EC) in 1993 with the Treaty of Maastricht. Since then the latter is the 'first pillar' of the European Union (EU). The term *social protection* is widely similar to the term *social security*. The former is usually used in a Community context, whereas the latter is used in a national context, particularly in the German one.

<sup>5</sup> This issue was raised already in June 1955 at the conference of the foreign ministries in Messina. For the final communiqué see Außenminister (1955: 7974) as well as the comments in Kuhn (1995: 34 ff.) and Göbel (2002: 3 ff.).

<sup>6</sup> For extensive comments see Europäische Wirtschaftsgemeinschaft, et al. (1962) as well as Hankel / Zweig (1957: 548 ff.); Heise (1963) and Heise (1964).

<sup>7</sup> See again the comments in Europäische Wirtschaftsgemeinschaft, et al. (1962) as well as Knolle (1963) and Erdmann (1963).

<sup>8</sup> Cf. Hug (1962); Lell (1966); Heise (1966); Mayer (1989) and Schmähl (1990: 32 ff.). For the economic consequences of harmonisation see Schmähl (1993: 325 ff.).

<sup>9</sup> For a historic view over the development stages of European social policy, see Henningsen (1992); Berié (1993); Kuhn (1995) and Kowalsky (1999).

<sup>10</sup> The main catchwords that describe the consisting differences are Bismarck and Beveridge. In the *Bismarck* social security systems the financing is borne by both employees and employers. Benefits are salary-linked, for the aim was to guarantee that all workers could maintain their living standard if particular risks would appear. The Bismarck system is a form of solidarity between the workers. The *Beveridge* concept stated that not only the workers, but also the total population was entitled to subsistence security. Regardless of the type of employment, it provides – by means of taxes – the same lump sum benefit for every citizen, in case of unemployment, sickness and old-age security. Still the various social security systems existing

proves to be less significant than it seems. Therefore, in the early 90's the Community proposed the promotion of *convergence* of member states' social policies, while recognising and respecting the diversity and autonomy of systems.<sup>11</sup> The result of the convergence approach were two Council recommendations in 1992.<sup>12</sup> Both recommendations were based on the principles of subsidiarity as implemented later in the Treaty of Maastricht in 1993.<sup>13</sup> However, there is still no explicit and comprehensive policy regarding national social security on the European level.<sup>14</sup> Nevertheless, there are different channels by which decisions at the EU level may influence (indirectly as well as directly) especially old-age security systems.

## 2. Channels influencing national old-age security at the EU level

As indicated in the previous part, the old-age security systems within EU member states and in the candidate countries still differ not only in organisation but also in their conception: different normative ideas (Bismarck vs. Beveridge) as well as aims (maintenance of living standard vs. poverty avoidance) resulted in conceptually different national old-age security systems that developed over time. They have in common that they are based upon three different pillars respectively tiers. In general, these pillars are the public old-age security system (in Germany especially the social (statutory) pension insurance and the schemes for civil servants), and supplementary systems (in Germany supplementary occupational schemes in the private and public sector), as well as the additional private old-age provision (for instance due to private life insurance). Moreover, important distinction can be made with regard to financing (pay-as-you-go vs. capital funded; contributions vs. taxes), the organisation (public vs. private), the insured persons (citizens or inhabitants vs. specific groups, e.g. self-employed persons), and the benefits of the systems. These structural features can relate to the three pillars and differ from member state to member state. The relevant characteristic of the formal old-age security system is the quantitative importance of the three different pillars.<sup>15</sup> At present – according to the current Community law – each EU member state is responsible for the conception of its formal old-age security system.<sup>16</sup> Nevertheless, figure 1

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within the EU are often (partly or completely) based upon these systems. A closer view on the structural features especially of the old-age security systems will be added in the following part (2.).

<sup>11</sup> Cf. Kommission der Europäischen Gemeinschaften (1989: 28 f.) as well as Kommission der Europäischen Gemeinschaften (1991: 3).

<sup>12</sup> The Council Recommendation (92/442/EEC) is on *Convergence of social protection objectives and policies* whereas the Council Recommendation (92/441/EEC) is on *Common criteria concerning sufficient resources and social assistance in the social protection systems*. For comments on these aspects see Schulte (1991); Hauser (1995) as well as Göbel (2002).

<sup>13</sup> The convergence approach was supposed to be essentially flexible and multiform and is marked by similar basics in comparison with the OMC. Cf. Göbel (2002: 131).

<sup>14</sup> Cf. Schulte (2001).

<sup>15</sup> Cf. Schmähl (2001: 182 ff.) as well as Schmähl (2002).

<sup>16</sup> Cf. Schulte (2001).

shows important channels by which the design, the scope and the structure of national old-age security systems can be influenced.

*Figure 1: Channels of possible influences on national old-age security systems at EU level*

implementation of the 4 basic freedoms competition & antitrust rules	Maastricht convergence criteria	convergence of prob- lems & objectives
regulations directives recommendations	ECJ ruling	SGP (incl. BEPG)
↓	↓	↓
national old-age security system structure: pay-as-you-go vs. capital funded contributions vs. taxes compulsory vs. optional public vs. private 1 <sup>st</sup> , 2 <sup>nd</sup> , 3 <sup>rd</sup> pillars (quantitative importance)		

Source: Author on basis of Schmähl (2002: 102).

The figure above illustrates the activities to implement the four basic freedoms, namely free movement of goods, free movement of workers, freedom to provide services, and free movement of capital.<sup>17</sup> Since 1957 these freedoms and instruments to ensure them – namely regulations, directives and recommendations – have been fixed in the Treaty of Rome.<sup>18</sup> During the last years the competition and antitrust rules, which are implemented in the Treaty as well, got an ever growing influence on the national social security systems.<sup>19</sup> In this context further important factors are the rulings of the European Court of Justice (ECJ), known as one of the driving forces of integration.<sup>20</sup> At last the indirect as well as direct impacts of the European Monetary Union (EMU) should not be neglected. The implementation of the Maastricht convergence criteria on public

<sup>17</sup> For the EU activities to implement the four basic freedoms and its effects on the national social policies see Schmähl (1997: 22 ff.) as well as the other comments in Schmähl / Rische (1997).

<sup>18</sup> Cf. Schulte (2001) with references. As an example, there are to name the Council Regulation (71/1408/EEC) on the *Application of social security schemes to employed persons and their families moving within the Community* as well as the Council Regulation (72/574/EEC) fixing the procedure for implementing (71/1408/EEC). These co-ordination rules are to help avoid disadvantages in cross-border activities. Cf. Ruland (1991); Polster (1994) and Andel (2001). Another example for indirect effects on pension policies may result from the directive of equal treatment of men and women – e.g. the Council Directive (79/7/EEC) on the *Progressive implementation of the principle of equal treatment for men and women in matters of social security* as well as the Council Directive (86/378/EEC) on the *Implementation of the principle of equal treatment for men and women in occupational social security schemes*, which is now amended by the Council Directive (96/97/EC). These directives have remarkable effects in old-age security schemes regarding retirement ages. For this aspect see Schmähl (1993: 8) and Sieveking (1997: 206 f.).

<sup>19</sup> For the influence of the competition and antitrust rules on the national security systems see Haverkate / Huster (1999: 285 ff.) and Eichenhofer (2001: 187 ff.).

<sup>20</sup> Cf. Schmähl (1993: 7 ff.); Eichenhofer (1996); Sieveking (1997) and Leibfried / Pierson (1998: 60 ff.) as well as Leibfried / Pierson (1999).

budgets is essential for the national level of social security.<sup>21</sup> These criteria and the multilateral surveillance procedure in association with the Stability and Growth Pact (SGP) and the Broad Economic Policy Guidelines (BEPG) as its main instrument can be used as an important political lever for the design, scope and structure of national old-age security systems.<sup>22</sup> These remarks prove that measures to implement the four basic freedoms and the Maastricht criteria may affect, indirectly as well as directly, national old-age security systems.<sup>23</sup>

In addition to that, the Commission pointed out that the systems of social security themselves and especially those of old-age security are facing various structural changes and common problems. To name but a few: the increasing activity rate of women, the ageing of the European population due to demographic reasons, a high level of long-term unemployment, changes in the living arrangements and structure of households, as well as the high level of taxes and social contributions. Furthermore, the Commission points out that due to the establishment of the single European market and the EMU the growing mobility of people entail the need of unified rules of social security.<sup>24</sup>

As pointed out in the historical review, *harmonisation* of social security has always been one obvious goal in the past. Since then it has been replaced by *convergence* of social security systems, which means first of all convergence of objectives.<sup>25</sup> Now, the *open method of co-ordination* is the supposed policy instrument to promote the process of convergence, starting with the areas of social inclusion, old-age security, health and long-term care after having been used in the employment field since the late 90's.<sup>26</sup>

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<sup>21</sup> For the Italian social security system the direct and indirect effects of the EMU were immense. For this case see Gohr (2001); for the German one see Schulz-Weidner (1995); Rürup (2000) and Ruland (2000). More general are the comments in Schmähl / Rische (1997).

<sup>22</sup> The multilateral surveillance procedure as a whole is implemented in article 99 EC Treaty whereas the sanction mechanisms of the SGP are implemented in the Council Regulation (97/1467/EC) on *Speeding up and clarifying the implementation of the excessive deficit procedure*. These sanction mechanisms include binding recommendations and fines, if an EMU member state has a public deficit of more than 3 per cent of its gross domestic product (GDP).

<sup>23</sup> For these aspect see Schmähl (2002: 103).

<sup>24</sup> Cf. Commission of the European Communities (1999). For earlier documents see Kommission der Europäischen Gemeinschaften (1993); Kommission der Europäischen Gemeinschaften (1994) as well as Kommission der Europäischen Gemeinschaften (1995) and Kommission der Europäischen Gemeinschaften (1997).

<sup>25</sup> For the major differences between the approaches of *harmonisation* and *convergence* see Lochner (1962) as well as Schulte (1990); Schmähl (1993: 11); Schmähl (1993: 314 ff.); Göbel (2002: 12 ff.) and Schulte (2002: 7 f.).

<sup>26</sup> For the experience and success of the European Employment Strategy (EES) see Blanpain (1998) and Jacobsson / Schmid (2002). For the influence of the EES on the German employment policy see Ostheim / Zohlhnhöfer (2002).

### 3. The Open method of co-ordination (OMC) regarding old-age security

During the Lisbon Summit in March 2000 the EU decided on the strategic aim to become “the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion”<sup>27</sup>. The ‘open method of co-ordination’ (OMC) was established as one tool to reach this ambitious goal. The conclusions of the Lisbon Council stipulate that the OMC is a decentralised but carefully co-ordinated process as a means of spreading *best-practice* and achieving *greater convergence* towards EU goals. The OMC is supposed to help member states to develop their own national social policies.<sup>28</sup> The whole process involves the following four elements:

- “fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms;
- establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best-practice;
- translating these European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences;
- periodic monitoring, evaluation and peer review organised as mutual learning processes”<sup>29</sup>.

A key component of the OMC is its decentralised approach in which various actors, especially the European Commission and the member states, have an active function with regard to the principle of subsidiarity as implemented in article 5 EC-Treaty of Amsterdam. The conception of the OMC implies a high importance for a supranational exchange of information, experiences and views. The OMC is supposed to reach a higher level of transparency concerning necessary reform measures through an intensified political co-operation between member states in the Council of the EU. By this means the OMC is supposed to be conducive to the convergence of the different old-age security systems. In view of the European Council, a necessity for the usage of this method in social policy respectively old-age security policy is rooted in the common problems and developments – especially the ageing of the European population due to demographic reasons – within the EU member states that (could) constitute a potential disadvantage with regard to the increasing intensification of global competition.<sup>30</sup> Moreover, the (official) aim of the OMC does explicitly not consist in the legal and/or formal *harmonisation* of European old-age security systems by the

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<sup>27</sup> European Council (2000: 2).

<sup>28</sup> Cf. Gesellschaft für Versicherungswissenschaft und -gestaltung e.V. (2001: 9 ff.).

<sup>29</sup> European Council (2000: 12).

<sup>30</sup> Cf. European Council (2001: 1).

EU in order to maintain the possibility for different national conceptions of organising old-age security systems to exist.<sup>31</sup>

In contrast to the conventional legal tools of the EU (e.g. regulations and directives) the OMC represents an instrument without legal binding (i.e. *soft-law*). Altogether, the OMC remains not binding with regard to aspects of legal competence, decision relevance and finance. The OMC is not supposed to establish legal sanctions on irregular policy. It rather aims at a process of *benchmarking*, the determination of *best-practice*, and to promote a continuous process of *learning-by-seeing*. Concerning this aspect it has to be noticed that several scientists and administration officials point out, that the OMC in the social policy area is not only influenced by the employment area, but by the co-ordination rules of the EMU as well.<sup>32</sup> It has to be mentioned in this context that the OMC regarding social policy is based on a *soft* approach – and this differs from the *hard* EMU approach. The latter is based upon the Treaty of Amsterdam and the SGP, which includes sanction mechanisms. In the social policy area there is nothing alike yet.

Nevertheless, should the OMC be continuously developed accordingly, and in case the OMC turns out to be an instrument to put into practice the formulated European broad common objectives<sup>33</sup>, this (non-binding) process could cause *peer-pressure* even without sanction mechanisms.<sup>34</sup> This peer-pressure could become the more intensive the bigger the differences between an existing old-age security system of a particular member state, and the conceptions formulated within the OMC framework respectively the best-practice. In view of that, to sum up, the OMC represents a *new* type of policy making and regulation: on the one hand, it is *softer* than the classical legislative approach, but on the other hand it implies more than simple non-binding recommendations or political declarations even without sanction mechanisms.<sup>35</sup> Keeping these facts in mind, let us have a closer look on the role of European institutions and policy committees related to old-age security.

<sup>31</sup> In detail, the Commission of the European Communities (2000: 13) pointed out that “member States [have] to decide what pension system they want and what policy mix is required to maintain adequate incomes for older people without jeopardising the stability of public finances, undermining employment incentives or squeezing out other essential public expenditures.” For these aspects see Council of the European Union (2001: 2) as well.

<sup>32</sup> For this aspect see the extensive comments in Verband Deutscher Rentenversicherungsträger (2002) and Devetzi / Schmitt (2002: 236) as well as Hodson / Maher (2001: 720 ff.). It is mentioned that this process is inspired by the experiences of the Luxembourg-Process and the ESS, which has been institutionalised by the Treaty of Amsterdam in 1999. Nevertheless, it is important to notice that the process of OMC as a whole is not embodied in the Treaty of Amsterdam yet. Furthermore, there is no *explicit* reference to it in the articles of the Treaty of Nice. On the other hand, Hauser (2002: 252) and Schulte (2002: 19) as well stated that the new article 137 of the Treaty of Nice describes a method that – according to their interpretation – shows similarities to the OMC.

<sup>33</sup> The formulated European broad common objectives will be described in part 3.2.

<sup>34</sup> Cf. Streeck (1996: 77 ff.), who called this kind of governance ‘neo-voluntarism’. Especially governance by persuasion, e.g. due to recommendation, expertise, explication and consultation, shows similarities to the OMC.

<sup>35</sup> For comments on these issues see Scharpf (2000: 22 ff.) as well as Gesellschaft für Versicherungswissenschaft und -gestaltung e.V. (2001: 11 f.) and Schulte (2002: 23 f.).

### 3.1 The role of European Institutions and Policy Committees

Looking at the main OMC actors it has to be distinguished between the level of decision-making and the Committee level. The main actors at the decision-making level are the European Council, the Council of the EU, and the European Commission.<sup>36</sup>

The *European Council* brings together the Heads of States and Governments of the fifteen member states of the European Union and the President of the European Commission. During its spring meetings the European Council passes general political guidelines and observes recent developments so far.<sup>37</sup> The *Council* is the central decision-making body, consisting of member states governments, respectively ministers, whose representatives regularly meet at the lower ministerial level. The Council is the legislative authority of the EU. Regarding the OMC, the Council for Economics and Finances (Ecofin) and for Employment and Social Policy (ESP) are the main players.<sup>38</sup> The *European Commission* embodies the general interests of the EU and acts as a driving force in the integration process. It proposes directions to take, and implements the measures decided upon by Council and Parliament as well. Regarding the OMC, the Commission on her part is responsible for co-ordination and for development of an evaluation method. The Commission plays a catalysing role in several respects, notably by presenting proposals concerning the European guidelines as well as the social indicators and benchmarks, organising the exchange of best-practice, and providing support to the follow-up and examination by the peers.<sup>39</sup> In addition, the European Commission has the capacity to build up knowledge through its involvement in all stages of the process.<sup>40</sup>

On the committee level there are two main actors:<sup>41</sup> the *Economic Policy Committee* (EPC)<sup>42</sup> prepares the work that supports the discourse of the Ecofin Council, whereas the *Social Protection*

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<sup>36</sup> The other decision-making actors of the EU – the European Parliament (EP), the European Court of Justice (ECJ) and the Economic and Social Committee (ESC) – are completely absent from the OMC process. Cf. the figure concerning the role of European institutions and policy committees related to old-age security systems in Council of the European Union (2001: 10).

<sup>37</sup> Cf. Council of the European Union (2001: 10).

<sup>38</sup> The Ecofin Council is the crucial actor within the OMC process, because of its leading role in the EMU. The ESP Council is not as influential as the Ecofin Council, since it is not equipped with comparable mechanisms yet.

<sup>39</sup> Cf. Council of the European Union (2001: 8).

<sup>40</sup> Cf. Gesellschaft für Versicherungswissenschaft und -gestaltung e.V. (2001: 9). The documents published by the Commission originate from different Directorates General (DG), namely the DG for Economic and Financial Affairs (DG Ecofin) and the DG for Employment and Social Affairs (DG ESA). This implies the co-existence of different positions within the European Commission as a whole. For these aspects see Porte / Pochet (2002).

<sup>41</sup> Moreover, there are two more Committees regarding old-age security, namely the *Economic and Financial Committee* (EFC) and the *Employment Committee* (EMCO), but these committees are not as crucial as the other actors. Cf. Council of the European Union (2001: 10).

<sup>42</sup> Regarding the OMC the EPC assists the Ecofin Council and the DG Ecofin in the assessment of national old-age security policy, focusing on the economic and budgetary implications of financing old-age security. Moreover, the EPC assists the Ecofin Council in drafting the joint Council/Commission report on pen-

*Committee* (SPC)<sup>43</sup> prepares the work that supports the discourse of the ESP Council. Both Committees are supposed to work jointly on implementing the OMC with regard to old-age security.<sup>44</sup>

In the following parts the different approaches of the actors in the emergence of old-age security on the European agenda will be described, before having a closer look on the current debate on social indicators and benchmarks as the main instruments of the OMC.

### 3.2 The relevant actors and their different approaches

The OMC process regarding old-age security started in June 1999 with a Commission communication on a *Concerted Strategy for Social Protection*. The four objectives, of which one deals with old-age security, would be associated with the exchange of information and the monitoring of policy developments by annual reports drawn by member states and the Commission.<sup>45</sup> During the first half of 2000 the *Portuguese Presidency* claimed a crucial importance of active employment policies, and declared that bolstering the sustainability of social security systems depends to a large extent on the increase of the employment rate within the European Union.<sup>46</sup> Moreover, the European Council of Lisbon defined the OMC in order to tackle problems within politically sensitive areas.<sup>47</sup>

As indicated above, the *European Council* agrees upon the general political guidelines in the process of the OMC. For example the *Stockholm Council* confirmed in March 2001 that “the ageing society calls for clear strategies for ensuring the adequacy of old-age security systems as well as of health care systems and care of the elderly, while at the same time maintaining sustainability of public finances and inter-generational solidarity. Where appropriate, the potential of the open method of coordination should be used to the full, particularly in the field of old-age security,

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sion reforms. The EPC develops indicators, especially for long-term financial sustainability of old-age security systems and prepares simulations to be carried out by member states. In its work the EPC is supported by the ‘Working Group on Ageing populations’. Cf. Council of the European Union (2001: 10).

<sup>43</sup> Regarding the OMC the SPC assists the ESP Council and the DG ESA in the assessment of national old-age security strategies, focusing particularly on the adequacy of pensions and adaptation to a changing society as a part of the OMC. Similar to the EPC, the SPC assists its ESP Council in drafting the joint Council/Commission report on reforms regarding old-age security systems. The SPC develops indicators, especially for the adequacy and adaptability of old-age security systems. The ‘Indicators Working Group’ supports the SPC in its work. Cf. Council of the European Union (2001: 10).

<sup>44</sup> Cf. Council of the European Union (2001: 10).

<sup>45</sup> Cf. Commission of the European Communities (1999).

<sup>46</sup> On the Lisbon Council the objective was proposed of increasing the employment rate of the Union to 70 per cent by 2010 – and to 60 per cent for woman. Cf. European Council (2000: 10).

<sup>47</sup> A specific mandate was defined for reforms in the area of old-age security. This mandate includes a forecast study on the sustainability of old-age security was to be prepared by the SPC, taking into account the ongoing work of the EPC in this area. Cf. European Council (2000: 11). The EPC had begun to undertake an in-depth analysis of the sustainability of national old-age security systems since 1997, see Economic Policy Committee (1997).



taking due account of the principle of subsidiarity”<sup>48</sup>. Since then, the strong inter-dependency between the financial sustainability of public finances and essential reforms concerning the old-age security systems is officially accepted and widely established among the European population.<sup>49</sup>

The Council is the central decision-making body of the EU. But, regarding the debate on old-age security systems two different approaches become obvious, an economic one and a social one.<sup>50</sup> The *Ecofin Council* and its advisory groups, on the one hand, promote an economically orientated approach. That focuses on the financial sustainability of the old-age security systems within the Community. As mentioned above, the EMU and especially the SGP with its new constraints have re-enforced the discussion on the reduction of size of the pay-as-you-go financed pillar of old-age security systems in order to curb the public debt and to reach a balanced budget. In view of that, the discussion on financing old-age security has moved into the centre. These developments show the report on *Budgetary challenges posed by ageing populations: the impact on public spending on pensions, health and long-term care for the elderly and possible indicators of the long-term sustainability of public finances*. This report, which was prepared by an Ecofin advisory group, concludes (again) that ageing will result in further increases of old age dependency ratios (even if the Lisbon targets on employment are met) and in public spending on old-age security in most member states. The report suggests that further cuts in spending on public old-age security systems may be needed,<sup>51</sup> but this implied that elderly persons wishing to attain a certain standard of living would have to continue to work after the current retirement age, and/or to invest in private pension plans throughout their active years. Moreover, the most controversial issue concerning the indicators, namely the central old-age security indicator proposed in this report, was on budgetary projections of future expenditures on old-age security.<sup>52</sup>

The *ESP Council* and its advisory groups on the other hand promote a socially orientated approach. That focuses on maintaining people's trust in their national old-age security systems. In its report *Sustainability of Pensions* these actors trace out three main tasks for national governments regarding their old-age security systems.<sup>53</sup> The first is to ensure that old-age security systems meet their social functions of providing safe and adequate pensions.<sup>54</sup> The second is to generate long-term financial sustainability of old-age security systems, in order to ensure intergenerational fair-

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<sup>48</sup> European Council (2001: 8).

<sup>49</sup> Awareness of these problem has been growing among citizens, as is shown by the results of a Eurobarometer survey (56.1) conducted by the Commission in autumn of 2001. A more comprehensive analysis of the results is forthcoming. For first results see Commission of the European Communities (2002: 14 ff.).

<sup>50</sup> For these aspects see Schulte (2002: 26 ff.) and Porte / Pochet (2002) as well.

<sup>51</sup> Cf. Economic Policy Committee (2001: 30 f.).

<sup>52</sup> This issue will be discussed in part 3.3.

<sup>53</sup> The report is based on fifteen national studies of EU member states on the challenges for their national old-age security system.

<sup>54</sup> These actors highlighted earlier the importance of evaluating the social and financial sustainability of old-age security systems: “It will not be possible to separate financial sustainability; one cannot be guaranteed without the other” Council of the European Union (2000: 12).

ness. The final task is to enhance the flexibility of old-age security systems in order to respond to the changing economic environment.<sup>55</sup>

In addition to these two different approaches, there is the one of the *European Commission* that combines social and economic objectives. The Commission issued first a communication on the *Future Evolution of Social Protection from a Long-Term Point of View: Safe and Sustainable Pensions*. According to this paper the success of old-age security reforms is closely connected to a forceful economic policy as well as active employment policy. Based on this policy line, the communication laid down ten principles for pension reforms.<sup>56</sup> The following communication on *Supporting National Strategies for Safe and Sustainable Pensions through an Integrated Approach* seems to be a compromise between different actors within the Commission but leans more towards an economic approach.<sup>57</sup>

Considering these different positions it can be concluded that discord between the involved actors hinders the creation of a *clear* European vision in this area. The result may be a mix of different approaches. Such an approach based on compromises can be seen in the joint report on *Objectives and working methods in the area of pensions: applying the open method of co-ordination*. This report is one of the core documents concerning the OMC in the area of old-age security.<sup>58</sup> But it took substantial disputes, before the main actors agreed upon objectives and working methods. An agreement on common social indicators, as instructed by the Gothenburg Council in June 2001, though was not possible. Nevertheless, the report underlines that the EU level should combine existing policy processes with the OMC in order to integrate national actors respective to their sphere of competence and power into the process.<sup>59</sup> The joint proposal is based on eleven common objectives. The three broad socio-economic goals are the following:<sup>60</sup>

- *First*, pension levels should meet social objectives. That is, preventing poverty in old-age and ensure participation of elderly people in public, social and cultural life, at the same time generating inter- and intragenerational fairness.
- *Second*, old-age security systems should be financially sustainable via higher levels of employment. Participation of older workers should be promoted and a fair balance between active and retired workers. Private and public pension schemes should be efficient, affordable, portable, and offer security.

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<sup>55</sup> Cf. Council of the European Union (2001: 3 f.).

<sup>56</sup> For these principles and objectives see Commission of the European Communities (2000: 13 f.).

<sup>57</sup> Cf. Commission of the European Communities (2001: 4 ff.).

<sup>58</sup> This report was to prepare for the Barcelona Council in March 2002. It was approved by the Employment and Social Policy (ESP) Council of December 3<sup>rd</sup> 2001 and confirmed by the Laeken Council in December 2001.

<sup>59</sup> These existing policy processes are the Broad Economic Policy Guidelines (BEPG), the multilateral surveillance process as implemented in article 99 EC Treaty (including the Cardiff process), the Stability and Growth Pact (SGP), the European Employment Strategy (EES) and finally the Social Inclusion Process. Cf. Council of the European Union (2001: 3 f.).

<sup>60</sup> Cf. Council of the European Union (2001: 6 ff.).

- *Third*, pensions should be adapted to changing economic, social and individual needs through generating gender equality. Old-age security systems should be more transparent and adaptable to changing circumstances, so that citizens can continue to have confidence in them. And finally the methodological basis for efficient monitoring of pension reforms and policies should be improved.

Now, the member states had to present their first national strategy reports for old-age security.<sup>61</sup> In a first draft the Commission has analysed these reports already, whereas good practice and innovative approaches of common interests are identified and presented to the member states.<sup>62</sup> In Spring 2003, the Council and the Commission have to provide a joint report to assess national old-age security strategies and identify good practices. Furthermore, in 2004 they are going to assess the objectives and working methods established and decide upon objectives, methods and timetables for the future old-age security strategy.

It is mentioned below, that there is no accord on social indicators and benchmarks as instructed by the Gothenburg Council in June 2001 yet. In the following part it will be outlined, that these indicators are an important element of the OMC.<sup>63</sup>

### **3.3 The point at issue: Social indicators and benchmarks**

In addition to the formulation of common objectives and working methods, the development and choice of appropriate quantitative and qualitative indicators and benchmarks are in the foreground of current national and European efforts. They are supposed to supply comparable information on trends that are of importance for the ‘financial sustainability of pensions systems’, and to be able to reflect the ‘adequacy of pensions’ as well as the ‘modernisation of pension systems’ – such as pointed out in the joint report on *Objectives and working methods in the area of pensions: applying the open method of co-ordination*.

Social indicators, on the one hand, are a tool for assessing a country’s level of social development and the impact of its social policy. Especially Eurostat and the European Commission support the development of these indicators. Such indicators are already in use in several member states of the EU. They started to play a crucial role in advancing the social dimension of Europe.<sup>64</sup> Benchmarks, on the other hand, may be defined as a standard *or* point of reference actual data has to be compared to. Therefore, benchmarks are a tool for private and public organisations and for social

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<sup>61</sup> The German government e.g. has presented their report in June 2002. For this report see Deutscher Bundestag (2002).

<sup>62</sup> Cf. Commission of the European Communities (2002).

<sup>63</sup> Cf. Ruland (2002: 39) as well as Schmähl (2002: 106). For an earlier and fundamental comment on this issue see Schmähl (1991).

<sup>64</sup> Publications such as *The Social Situation in Europe*, *The Social Protection in Europe*, *The Social Portrait of Europe* or the *Mutual Information System on Social Protection* (MISSOC) have disseminated the social monitoring of the EU. Cf. Göbel (2002: 128).

security systems as well as to assess their performance. They should help to evaluate how an organisation or a system is doing relatively to its peers. A main problem in this context is that benchmarks might ignore *structural* differences. Furthermore, it has to be kept in mind, that concerning the OMC the *choice* of indicators, as well as the *definition* of benchmarks are the result of political decisions and therefore *not neutral*. They strongly depend on the normative approaches of the involved actors and on the objectives of the national old-age security systems.<sup>65</sup>

In view of the beginning of the discussion, and in the absence of empirical data it is very difficult to draw a *specific* scenario concerning the direct and indirect effects of the OMC for the old-age security systems within EU member states, as well as in candidate countries. So far, the consequences of the OMC, as well as the use of social indicators and benchmarks in this process are unknown.<sup>66</sup> However, following the discussions about social indicators and benchmarks, as well in EU member states and candidate countries as by scientists and administration members, several political and technical problems are pointed out, e.g. the question of what should be measured by the indicator and benchmark as well? Should only those security systems be considered which are defined as old-age security – the mandatory or the voluntary systems, and should private retirement provision be included as well? That leads to the puzzle of what is old-age security? A further question is in this context, what will actually be measured with an indicator?<sup>67</sup>

In view of these issues two different approaches to monitor pension reforms were discussed on the Community level. One was developed by a rather socially orientated actor, whereas the other was created by a more economically orientated actor. The more economically orientated approach was developed by the Economic Policy Committee (EPC), who has presented in two reports a comprehensive projective analysis through 2050 on the impact of an ageing population on the public old-age security systems.<sup>68</sup> The economically orientated recommendations of the EPC are based on this analysis. It consists of long-term simulations of public pension expenditure, which is based on demographic and macro-economic assumptions. The central indicators proposed in the latest report were on ‘old-age dependency ratio’<sup>69</sup> and ‘budgetary projections of future expenditures on pensions’. Table 1 shows the latest result of the projections on spending before taxes on public

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<sup>65</sup> For these aspects see Porte, et al. (2001) as well as Gesellschaft für Versicherungswissenschaft und -gestaltung e.V. (2001); Devetzi / Schmitt (2002) and Semrau / Stubig (1999). The use of benchmarking as an instrument to promote change and continuous improvement of Europe’s competitive performance was developed in the mid-90’s by two Commission communications; for these communications see Commission of the European Communities (1996) and Commission of the European Communities (1997). It is interesting to note, that this work is obviously built upon a paper published by the European Round Table of Industrialists (1996). This organisation is a forum of 42 European industrial leaders aiming at promoting the competitiveness and growth of Europe’s economy. For this link see Porte, et al. (2001: 293).

<sup>66</sup> Cf. Schulte (2002: 26). A theoretical scenario will be lined out in part 4.

<sup>67</sup> For extensive comments on this issue see Verband Deutscher Rentenversicherungsträger (2002).

<sup>68</sup> Cf. Economic Policy Committee (2000) as well as Economic Policy Committee (2001).

<sup>69</sup> This indicator measures the population aged 65 and over as per cent of population aged 15 to 64. Cf. Economic Policy Committee (2001: 10 ff.).

pensions as percentage of GDP.<sup>70</sup> It shows that in 2000 spending on public pensions accounted for an average of 10 per cent of GDP, albeit with considerable variation across the EU member states.<sup>71</sup>

*Table 1: Public expenditures (including public replacement revenues) to people aged over 55 before taxes (as % of GDP) – current policy scenario*

	2000	2010	2020	2030	2040	2050	PEAK CHANGE
Belgium	10,0	9,9	11,4	13,3	13,7	13,3	3,7
Denmark	10,5	12,5	13,8	14,5	14,0	13,3	4,1
Germany	11,8	11,2	12,6	15,5	16,6	16,9	5,0
Greece	12,6	12,6	15,4	19,6	23,8	24,8	12,2
Spain	9,4	8,9	9,9	12,6	16,0	17,3	7,6
France	12,1	13,1	15,0	16,0	15,8	./.	4,0
Ireland	4,6	5,0	6,7	7,6	8,3	9,0	4,4
Italy	13,8	13,9	14,8	15,7	15,7	14,1	2,1
Luxembourg	7,4	7,5	8,2	9,2	9,5	9,3	2,2
Netherlands	7,9	9,1	11,1	13,1	14,1	13,6	6,2
Austria	14,5	14,9	16,0	18,1	18,3	17,0	4,2
Portugal	9,8	11,8	13,1	13,6	13,8	13,2	4,1
Finland	11,3	11,6	12,9	14,9	16,0	15,9	4,7
Sweden	9,0	9,6	10,7	11,4	11,4	10,7	2,6
United Kingdom	5,5	5,1	4,9	5,2	5,0	4,4	-1,1
EU	10,4	10,4	11,5	13,0	13,6	13,3	3,2

Source: Economic Policy Committee (2001: 22).

The table shows a rise of public spending for old-age security between 3 and 5 per cent of GDP in most member states over the next five decades, although the projected rise in spending on public pensions is significant sporadically. The evolution of public pension expenditures can be considered by examining member states in groups: the UK is the only member state to actually project a decrease in public pension spending as a share of GDP. Relatively low increases between 2 to 3 per cent of GDP are projected for Italy, Luxembourg and Sweden. The countries that face the biggest challenges on pension expenditure are Spain and Greece, where increases in spending of 8 and 12 per cent of GDP are projected, respectively. The suggested policy recommendation is to

<sup>70</sup> The projections cover old-age pensions, early retirement pensions, disability and survivors pensions as well as other replacement income for persons aged over 55. Cf. Economic Policy Committee (2001: 21).

<sup>71</sup> The EPC pointed out, that these difference, in part, stem from the fact the public pensions in some countries include earning-related schemes with entitlements dependent upon past contributions: this tends to lead to a higher level of public spending on pensions. In contrast, public pension schemes in other countries operate on a more flat-rate basis, often aiming at providing a minimum level of retirement income: these public pensions are supplemented with private occupational schemes and/or private savings which fall outside the public sector, and consequently the scope of this projection exercise. Some of the differences may also arise from the variability in the coverage of the projections. Cf. Economic Policy Committee (2001: 22).

curtail spending in this area, in order to maintain the sustainability of public finances.<sup>72</sup> In this context it has to be clarified that the report does not consider whether an indicator is able to measure the capacity of systems to meet their social objectives or, to meet changing societal needs – even though these issues were identified as key stakes in old-age security reforms during the Gothenburg and the Stockholm Council.<sup>73</sup>

A rather socially orientated and comprehensive approach was outlined in the Commission's discussion-paper *Social indicators for monitoring pension reforms*.<sup>74</sup> The purpose of this paper was to set off an orientation debate on the most appropriate indicators in the area of pension reforms. In this paper the Commission pointed out that indicators on pension reforms should allow for the large diversity of national old-age security systems. At the same time they are supposed to be capable of providing comparable quantitative information on the major economic, financial and demographic trends affecting the long-term sustainability of old-age security, as well as information on the progress of pension reform and its likely impact. For this purpose a large variety of indicators will be needed: performance indicators (drawn from statistical data) as well as political indicators (mostly drawn from administrative or institutional information); retrospective indicators as well as projections. The paper clarifies a possible identical thematic structure for a comprehensive social indicator approach, namely indicators for measuring financial sustainability, social cohesion and adaptability to change. This structure is the basis for the set of possible indicators presented in this paper. The document gives an overview about the 'justification', the 'interpretation' and the 'source' of most of the indicators.<sup>75</sup>

Concerning the social indicators to monitor old-age security reforms, one remark to these different approaches of the actors has to be made. Obviously, it is very difficult to agree on a common approach due to different priorities of the actors. As clarified in the joint report on *Objectives and working methods in the area of pensions: applying the open method of co-ordination*, differences lead to a compromise that neither satisfies the economically orientated nor the socially orientated actors. In view of the different approaches of these actors, an accord on social indicators and benchmarks is not to be expected soon. First it has to be discussed how the old-age security systems can be compared, and how the social components of the systems can be presented sufficiently. From a normative point of view it is very important that not those member states who burden their national budgets least assessed top but those which, at the same time, maintain the highest possible level of protection.<sup>76</sup> For the society of EU member states as well as of candidate countries, this nexus is extremely crucial.

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<sup>72</sup> Cf. Economic Policy Committee (2001: 23 ff.)

<sup>73</sup> Though, the EPC points out that it will take the initiative to work out indicators that would not only tell about the sustainability of public finances, but also the quality of the old-age security systems. Cf. Economic Policy Committee (2001: 32).

<sup>74</sup> The paper was issued by the DG Employment and Social Affairs' (DG ESA) of the European Commission.

<sup>75</sup> Cf. European Commission (2001) as well as the comments in Göbel (2002: 141 ff.) and Schulte (2002: 21 ff.).

<sup>76</sup> For this criticism see Schmähl (2002: 117 ff.) and Sommer (2002: 4 f.) as well.

#### 4. The OMC concerning the enlargement process

In view of the numerous problems that social security systems are facing, e.g. the low rate of employment or the demographic change in current member states and also in candidate countries, one main issue for the latter is their active participation in the OMC already before joining the EU. So far, candidate countries are not involved in this process at all. They do not have an official observer status, even though the Council and the Commission call for involvement of all relevant stakeholders in the OMC process. These stakeholders are the EU and the member states, as well as the social partners and civil society.<sup>77</sup> The OMC is meant to improve transparency and deepen democratic participation – key objectives of the EU, as indicated in the White Paper on European Governance.<sup>78</sup> Indeed, the Commission points out that co-operation on social protection will also be developed. In accordance with the conclusions of the Gothenburg Council, the Commission will start covering candidate countries' initiatives as from its 2003 Annual Synthesis Report.<sup>79</sup> However, in the area of old-age security this kind of EU activity seems to be new, so that not much thought has been given to the question of how exactly the candidate countries can be integrated into these tasks. In view of that, no progress can be observed in this area so far. Nevertheless, concerning the enlargement there are some issues to be discussed.

The first issue to be raised is, whether the common objectives, working methods, the discussed social indicators and benchmarks are finally fixed by now, or whether they will be restated as a consequence of the enlargement. Moreover, what are the expectations of candidate countries on the OMC? How do they understand the OMC as a whole, and how do they assess the broad common objectives, working methods and indicators? How can candidate countries prove the *sustainability* and *adequacy* of their old-age security systems to the Community? These unanswered questions show that candidate countries are not involved in the current debates – they are even left without detailed information on the process. All these points lead to the question of whether candidate countries should be invited soon to participate actively in the OMC.

A further question is, whether the OMC will be an appropriate instrument to prepare candidate countries for joining the European Union. Close co-operation between EU member states and candidate countries in the area of old-age security will allow to share experiences, learn from each other, and encourage each other to develop sustainable old-age security systems for the future. Early involvement of candidate countries into the ongoing OMC process of old-age security re-

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<sup>77</sup> As an example see Commission of the European Communities (2000: 8); Commission of the European Communities (2001: 12); European Council (2000: 8) and several further official documents of the EU.

<sup>78</sup> Cf. Commission of the European Communities (2001: 10 ff.). Indeed, to prepare the candidate countries for joining the EES, the Commission has developed close co-operation with them, as indicated by the *Joint Assessment Papers* (JAPs), which are a diagnosis of the labour market situation and trends and a proposal for policy reform. They define the policy framework for preparing future European Social Fund (ESF) intervention. Furthermore JAPs contribute to identifying policy priorities for the pre-accession strategy and PHARE support. Building on the experience of the Employment JAPs, the Commission has invited candidate countries to embark in co-operation on social inclusion/poverty in 2002, with a view to involve them in EU efforts based on the OMC.

<sup>79</sup> Cf. European Commission (2001: 42 f.).

forms should help them to prepare efficiently for accession and to design reforms in line with the principles set out by the European Council. Furthermore, EU member states could take advantage of the experience with recent reforms of candidate countries.<sup>80</sup>

Concerning this issue one remaining question is whether the OMC will entail any significant changes in the old-age security systems of the EU member states and of the candidate countries. Within the current framework, old-age security systems *compete* with each other directly and publicly.<sup>81</sup> The crucial question is: Will the OMC have any (direct or indirect) effects, will it strengthen the process of convergence of old-age security systems within the EU or will it lead to a common system effective in all member states within an enlarged Union? And if so, what kind of reform measures will be implemented?

In theory, one could think of the following *scenario*: the OMC will be implemented as described and result in a development towards the convergence of systems. The rating of the old-age security systems with the help of the *indicators* and *benchmarks* – and possibly a *ranking* – would lead to *peer-pressure* in the direction of *best-practice*. In that case, those member states with old-age security systems that do not match the common conception of old-age security could feel obliged by the Community respectively the other member states and for economic and/or fiscal reasons to modify their old-age security systems by national regulations. These regulations could alter the benefits of the former old-age security system and its financing, the age limit or the insured persons. In this case the OMC would lead to a (strongly) converging European model of old-age security. With a view to the EU enlargement this scenario is of relevance. The old-age security systems of the candidate countries are marked by different analogies with regard to their conception: obligatory poverty avoiding security by pay-as-you-go measures as a first pillar and supplementary obligatory capital funded schemes as second and third pillars for the maintenance of the standard of living reached in the course of gainful activity. Within the framework of the OMC these structural elements could establish themselves as *benchmarks* and *best-practice*: on the one hand these elements are widely in line with the recommendations of the authoritative (i.e. the economic-orientated) actors of the OMC. On the other hand and as indicated, the *choice* of indicators as well as the *definition* of benchmarks are the result of political decisions. Thus, they strongly depend on the normative approaches of the involved actors and on the objectives of the national old-age security systems. This constellation could force a clear-cut vision towards an economic-orientated model of old-age security within an enlarged EU. In this case, the *peer-pressure* resulting from the OMC would effect particularly current EU member states. The majority of their old-age security systems do not coincide with the old-age security model of the candidate countries or of the economic-orientated actors. A converging old-age security system could – according to the previous considerations – show analogies to the already existing old-age security systems of the candidate countries.

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<sup>80</sup> For recent old-age security reforms, e.g. in Poland, Hungary and the Czech Republic, see Deutsche Bank Research (2002: 20 ff.).

<sup>81</sup> Cf. Terwey (2002: 436).



## 5. Concluding remarks

As pointed out in the historical review, harmonisation of social security has been an obvious goal in the past. During the European integration this goal has changed to convergence. Now, the OMC represents a new form of regulation on the European level. It is softer than the classical legislative approach, e.g. due to regulations and directives, but it is more than a simple non-binding recommendation or political declaration. The key ingredient of the OMC approach is the use of a decentralised method of co-ordination in which various groupings of different interests play an active role. In the area of old-age security the different actors can be classified into economically and socially orientated actors. But tensions between them regarding the direction of old-age security reforms still hinder the creation of a clear-cut European vision in this area: one group is more interested in the long-term financial sustainability of old-age security systems and its possible impact on public finances. In contrast to that, the other group focuses on maintaining people's trust in their national old-age security systems by ensuring that they meet their social functions of providing safe and adequate old-age security. In addition to these approaches, the European Commission combines the objective of social and economic visions. The result is a mix of these two, although the economic vision dominates at the moment. Nevertheless, an essential element of the OMC is the need to agree on a range of quantitative and qualitative indicators. These are meant to assess the current system of each member state and its progress with the common strategy and to exchange good practice among member states after peer-review. But, concepts that are satisfying all stakeholders are not developed yet, so that the debate on indicators and benchmarks is still an ongoing process. The last point inspected in this paper concerns the enlargement process. As pointed out, the candidate countries are not involved in the OMC process at all. So far, they do not even have an observer-status and consequently no influence on this process. Therefore, the EU might invite candidate countries for an active participation in the OMC to voice their opinions and to define their positions in this area even before joining the EU.

However, the direct as well as indirect effects of the OMC are yet unknown. It is still an open question whether the OMC will have any consequences at all, and if so, what will they be: Will the OMC reinforce the process of convergence or even of harmonisation; and what kind of concrete reforms will follow in the area of old-age security due to the OMC? Furthermore, it can not be foreseen yet whether the OMC process or the implemented reforms regarding old-age security have further implications on labour markets, capital markets or markets for goods and services. Finally, it is still unknown, whether there will be any effects on the level and distribution of income, on saving, investment and consumption or other macroeconomic indicators. These important issues and crucial connections between different policy areas are not part of the current discussions and analyses yet. However, as you can see, the actors are struggling to define a common European line in old-age security policy. In sum, questions of competence and power of the actors as well as questions of the *best* old-age security concept are dominating their activities.

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## Abbreviations

BEPG	Broad Economic Policy Guidelines
DG	Directorate General
DG Econ	Directorate General for Economic and Financial Affairs
DG ESA	Directorate General for Employment and Social Affairs
EC	European Community
ECJ	European Court of Justice
Ecofin	Economic and Financial Affairs [Council]
EEC	European Economic Community
EES	European Employment Strategy
EFC	Economic and Financial Committee
EMCO	Employment Committee
EMU	European Monetary Union
EP	European Parliament
EPC	Economic Policy Committee
ESC	Economic and Social Committee
ESF	European Social Fund
ESP	Employment and Social Policy [Council]
EU	European Union
GDP	Gross Domestic Product
JAP	Joint Assessment Paper
MISSOC	Mutual Information System on Social Protection
OMC	Open method of co-ordination
PHARE	Poland and Hungary Action for Restructuring of the Economy
SGP	Stability and Growth Pact
SPC	Social Protection Committee